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Faculty Working Papers

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Marketing Planning**

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A CONCEPTUAL MODEL OF LONG-RANGE MULTINATIONAL
MARKETING PLANNING

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In the last two decades, we have witnessed an enormous expansion of multinational business among many corporations headquartered in the U.S. By 1969, the U.S. Corporations were participating in more than 30 percent of total world trade, were importing products valued in excess of \$40 billion dollars and exporting products valued in excess of \$26 billion dollars. Correspondingly, the direct foreign investment shot up from less than \$8 billion dollars by 1950 to more than \$70 billion dollars by 1970. Finally, most of the top U.S. Corporations, according to the Fortune Magazine Survey, today depend on foreign markets for their sales and profits.

In this growth in multinational business likely to continue for the U.S. Corporations? A number of factors suggest that the future growth of U.S. Corporations in terms of multinational business will be less than spectacular hereafter. First, a large part of private foreign investment was related to the economic aid programs during the reconstruction days following World War II. The virtual monopoly experienced by the U.S. Corporations during that timeperiod is rapidly vanishing as many advanced economies are rebuilt and as the spirit of nationalism begins to pervade increasingly among newer nations. Second, many other foreign countries are participating in multinational business notably West Germany and Japan. The character of their industries is also beginning to take the multinational shape so that the technological gap today is either nonexistent or very rapidly closing in most industries. Third, markets for products in both advanced and less developed countries are rapidly becoming mature

with sufficient number of entries from local indigeneous companies. Both the political and economic considerations encourage these companies to survive and grow sometimes at the expense of foreign corporations. Finally, and most importantly, the U.S. Corporations have sadly neglected the marketing orientation in their multinational business activities. During the period of spectacular growth, their attention has been diverted mostly to the transfer of technology to other countries and to the estimation of risks in committing financial and managerial resources to the new opportunities. Without the temporary competitive advantages of monopoly protections and technological gap, this neglect of marketing orientation is clearly the most vulnerable aspect in the likely decline of U.S. position in multinational business.

At the same time, if history can be of any guide, it is equally inevitable that the U.S. multinational corporations will become more marketing-oriented. After all, this has been the experience in the domestic market for most companies in the early fifties. Unfortunately, the luxury of historical evolution of marketing orientation in multinational business is likely to entail some rude awakening for many U.S. Corporations. I think there are several compelling reasons which dictate that immediate attention should be paid in incorporating modern marketing thought in multinational operations. First of all, profits from foreign markets have, to a large extent, disguised the enormous failures in the domestic markets prior to the new marketing orientation. There is no comparable "buffer" activity which will bear the burden of losses in multinational business due to lack of comparable marketing orientation. Second, private foreign investments are, by definition, more complex

because financial and legal complexities are widely different in foreign countries and subject to rapid change. This implies that without the support of market place and its loyalty, it is difficult to survive. Fourth, the type of lobbying support prevalent within the U.S. to thwart governmental actions is generally not available in most foreign countries. The only support that one can effectively rely upon is to build market loyalties among customers by proper marketing orientation. Finally, the ultimate opportunity lies in the vast populations outside the U.S. A planned modern marketing orientation is likely to go a long way to effectively take part in this opportunity.

This paper provides a conceptual framework for planning multinational marketing. The framework is useful for large-scale corporations doing business in several countries, and it is primarily a long-range planning model. The conceptual model is summarized in Figure 1. The various activities and flows within the rectangular box constitutes various aspects of modern multinational marketing. The small boxes outside the rectangle are the environmental aspects with constantly influence the marketing process. The solid lines represent direct flow of activities within the marketing process whereas the broken lines represent continuous feedback and interchange between various marketing activities. The environmental influences are depicted with crossed lines. The rest of this paper describes the conceptual model for developing multinational marketing planning. In the process, I will distinguish between the current practice in most multinational corporations and what is proposed in this paper.

- A. In my view, multinational marketing should begin first with the assessment of buyer needs and expectations on a world-wide basis. It should not, therefore, begin after a product concept is developed

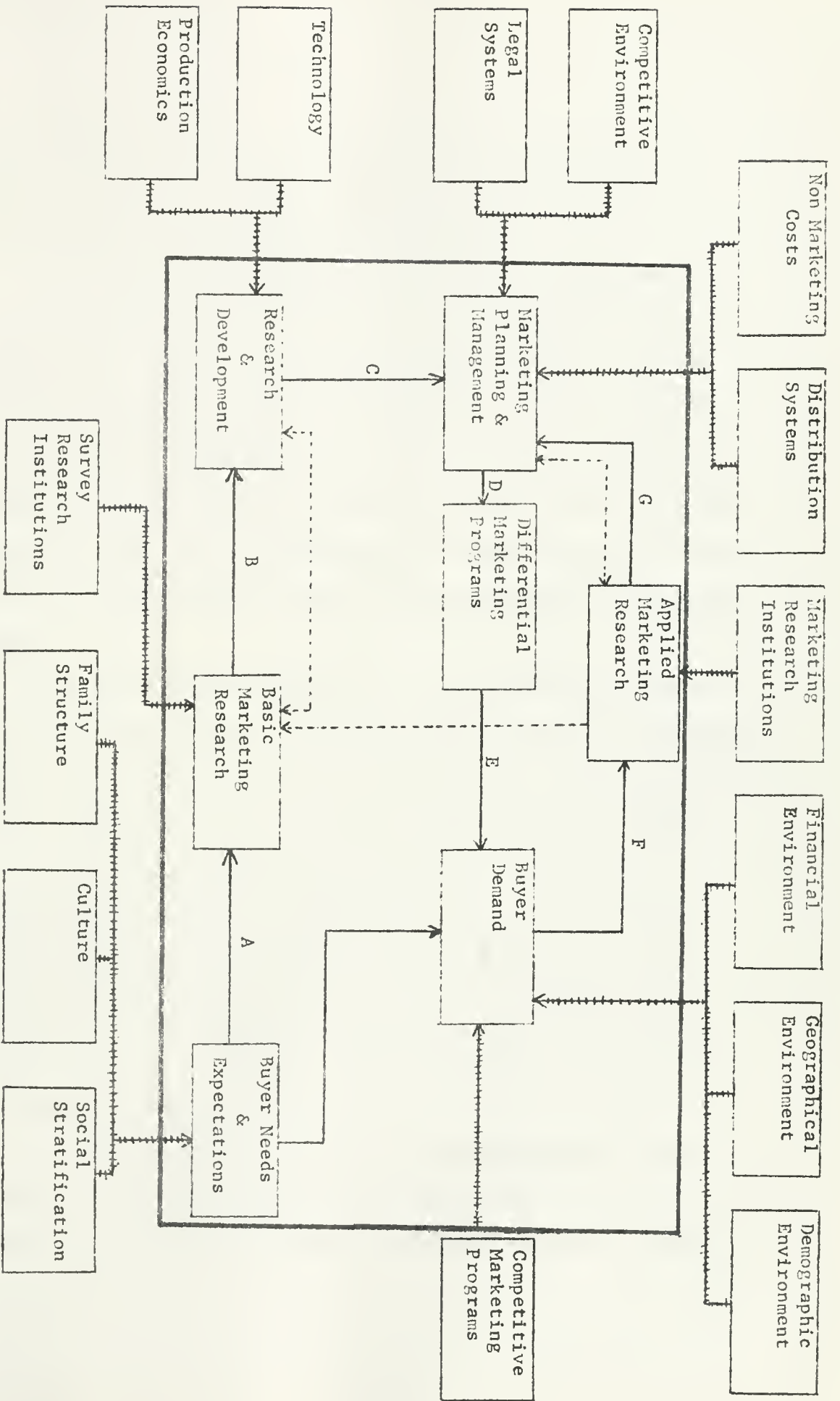


Figure 1

A Conceptual Model of Long-Range Multinational Marketing Planning

or after the production facilities are erected. Implicit in this statement, I am pointing out several limitations in the current practice of multinational operations.

First, there is no systematic and continuous assessment of buyer needs and expectations in the current practice of most corporations. Most of the marketing research is post-facto; to find out whether a new concept or product developed by R&D will be acceptable to the customers. Even if there is any effort to assess buyer needs before the concept is developed, such an effort is typically ad hoc. I am suggesting a continuous research effort to systematically monitor present and changing needs of the market place.

Second, the present practice is to do marketing research on country-by-country basis. In addition, most multinational marketing decisions are centered around the question as to whether the company should extend its marketing program to newer countries or adjust it to suit the local conditions. While such a practice was probably quite appropriate during the colonial days and may be useful even today for exporting or trading companies, it tends to be myopic in the long-run. In fact, it is not difficult to trace a number of failures in multinational activities directly to this practice.

A world-wide systematic and continuous assessment of buyer needs and expectations is likely to point out that (a) potential markets are mostly in the metropolitan areas especially in the

less developed countries, (b) clustering metropolitan areas both within and between countries is more meaningful from marketing viewpoint, and (c) probably we shall find greater similarity between metropolitan areas across countries than within countries.

Third, the assessment of customer needs and expectations should be based on data collected at the micro level, namely the household or the business unit. The present practice is to assess potential demand from secondary data which are aggregate and typically historical. While these data are useful to some extent, experience has shown that they can easily mislead the conclusions particularly because of their aggregative nature.

Finally, contrary to the current marketing practice, the emphasis in the conceptual model is on the customer needs and not on the product. It is my belief that this focus on customer needs is more enduring a concept and tends to avoid the myopic tendency which a company is likely to fall into as its products become mature in their life cycle.

The world-wide assessment of buyer needs and expectations should be done by establishing a longitudinal panel in selected geographical areas. The selection of specific geographical areas should be based on clustering of all the geographical areas of the world in terms of their similarity on the environmental factors such as political stability, market opportunity, economic development, cultural unity and legal barriers in doing business with the area. The geographical areas can be countries or preferably metropolitan areas.

The model shows that buyer needs and expectations are likely to be determined by culture, social stratification and

family structure. The differences in buyer needs and expectations are, therefore, likely to be found between geographical areas with varying dimensions on these three factors. Similarly, over a period of time, these factors are likely to change perhaps rapidly in many countries, bringing about corresponding changes in buyer needs and expectations. The reader is referred to Howard and Sheth (1969) for a discussion of ways in which these factors determine buyer expectations.

- B. We must distinguish between basic marketing research and applied marketing research. Just as there was no basic research and development two decades ago in most companies, there is today no basic marketing research activity. In the long-range planning, basic marketing research is essential. My view is that the world-wide continuous assessment of customer needs and expectations should be the responsibility of basic marketing research staff. Furthermore, this activity should be centralized at the corporate level in the multinational corporation to maintain world-wide perspective.

In monitoring buyer needs and expectations the basic marketing research is likely to perform at least the following things: First, it will bring to bear professional and systematic effort to provide a common understanding of market place needs in place of ad hoc and often incomparable research presently focused on products. Second, it will make explicit the assumptions of R&D about the market needs in developing new products, and therefore, subject to examination and criticism. Finally, it will act as the

bridge between the R&D expertise with respect to technology and production economics and the unfulfilled needs and expectations of the market place.

The basic marketing research is likely to vary its procedures in assessing buyer needs and expectations from one geographical area to another due to differences in sophistication and availability of survey research institutions. For example, in some countries telephone interviews may be impossible because only a few possess them whereas in other countries mail questionnaire may be less useful due to illiteracy and postal facilities. There is, however, sufficient knowledge available today on cross-cultural survey research to enable the company to establish a viable basic marketing research unit.

- C. The role of Research & Development (R&D) is to attempt to convert specific recommendations from the basic marketing research into viable product offerings by taking into account technological and production economics considerations. The recommendations from basic marketing research can be as simple as packaging changes to as complex as developing a new concept from the scratch. In the model, therefore, R&D is envisioned to be market-oriented instead of technology-oriented. The latter unfortunately is the more common reality in today's multinational corporations.

I am also suggesting that the organizational importance and de facto power of R&D be neutralized by the establishment of the basic marketing research unit. Ideally, R&D people will provide technological and economic expertise and the basic marketing

research will provide psychological and marketing expertise in the common objective of matching people's needs and expectations with mass production facilities. In view of the interdependent roles between R&D and basic marketing research, the model assumes a feedback loop between the two activities. For example, R&D develops a new packaging scheme based on the recommendations from basic marketing research. The new packaging scheme is then tested by the latter with recommendations to modify if market reactions are not satisfactory and so on. I presume considerable interaction between the two entities at least until the test marketing phase of any new product introduction is completed.

- D. The concrete proposals as outcomes of the joint efforts of R&D and basic marketing research are recommended to marketing management. In addition to the routine activity of monitoring relative position of existing products in many markets, the marketing management must spend considerable time in reviewing new proposals. This will enable it to maintain the dynamic element and be prepared to make quick decisions when a change is demanded due to some abrupt change in the market environment.

The role of marketing management is analogous to that of the diamond cutter. It must attempt to convert the concrete opportunities dug up by both R&D and the basic marketing research units in terms of profitable and societally useful means of satisfying buyer demand. It is, therefore, a very crucial role, and following the analogy, not many concrete proposals will become viable modules to achieve corporate goals.

Just as considerable skill and experience is required to become a good diamond cutter, the marketing management also

requires considerable experience and skill in decision-making to cope with a large number of environmental factors. These factors are classified as (1) competitive structure, (2) legal environment, (3) nonmarketing costs and (4) distribution system. Since these factors are widely known and discussed in many books, we will not elaborate on their importance here. The only relevant point to make here is that these factors are likely to vary widely from one segment of the market to another segment, whether the segments are based on clusterings of countries, metropolitan areas or some other entities.

- E. The output of managerial decision-making will result in specific marketing programs on a world-wide basis. The marketing programs are likely to be differentiated from one segment of the world market to another segment. This differentiation will be with respect to both the budget allocations and the specific emphasis of marketing mix elements.

The specific marketing programs should be designed based on the concept of world segmentation. Unlike differentiating markets on a country basis, the most viable and profitable segmentation basis seems to be the examination of underlying factors which determine buyer demand. These factors can be broadly classified as buyer expectations and buying climate. The first factor was briefly discussed before and it is based on culture, social stratification and family structure. The second factor (buying climate) is primarily based on financial factors (disposable personal income, asset holdings, etc.), geographical

factors (temperature, humidity & altitude; tropical vs. temperature climate, etc.) and demographic factors (size of family, age distributions of family members, life cycle of family etc.).

Below is a scheme of differentiated marketing programs based on segments which differ in either buyer expectations or buying climate or both. If the differences are primarily with respect to buying climate, the company must adopt differential product (size, packaging, variety, quality, etc.) and distribution (direct selling, self service, length of middlemen chain, etc.) strategies from one segment of the world market to some other segment. On the other hand, if differences are primarily in terms of buyer expectations, the company must adopt differential promotion (different advertising appeals, different media, different display promotions, etc.) and pricing (price thresholds, price-quality relationship, etc.) strategies. If both the buyer expectations and buying climate are different, a completely differentiated marketing program will be needed for each segment of the world market. Table 1 gives a summary of differential marketing programs. The reader is referred to Sheth (1972) for a fuller discussion of these strategies.

In the model, therefore, differential Marketing programs are considered essential. However, it is suggested that these differential marketing programs should not be based on national sovereignty of the countries in which a company markets but must be based on the buyer demand characteristics.

Table 1

DIFFERENTIAL MARKETING PROGRAMS FOR SEGMENTED
WORLD MARKETS

		Buying Climate	
		Same	Different
Buyer Expectations	Same	Universal Marketing Programs	Differential Marketing with respect to: Product & Distribution
	Different	Differential Marketing with respect to: Advertising & Promotion and Pricing	Fully Differentiated Marketing Programs

F. The demand for a company's products at the micro level is likely to be determined by a number of factors in addition to buyer needs and expectations. The three environmental factors which often break the nice relationship between buyer needs and buyer demand are (1) financial environment, (2) geographic environment, and (3) demographic environment. They were briefly described in the last section. A fuller description can be found in Howard and Sheth (1969).

In addition, buyer demand for a specific brand can be influenced by the company's differentiated marketing effort. This effort, however, will be relative in its success depending upon the competitive marketing effort. In general, one can safely assume that (1) if the company's marketing programs are based upon proper assessment of buyer needs and expectations and (2) if the differential marketing approach is adopted, the company can effectively communicate the market customers about its products.

G. The assessment and continuous reporting of buyer demand is the function of applied marketing research. In addition to company's own records, this entity must understand and record market demand at the micro level. Fortunately, a number of syndicated marketing research services such as MRCA or Atwood Panels are available so that the applied marketing research does not have to set up its own data collection activities.

A second major activity of the applied marketing research is to carry out experimentation with differential marketing programs including the test marketing activities. It is my hope that this applied marketing research will perform similar liason function between marketing management and market demand as does the basic marketing research between buyer needs and company's Research & Development.

What are the implications of the conceptual model presented in this paper? First of all, the model encourages the multinational corporation to examine the world as potential market place. As such, piece meal and trial-and-error efforts of the present multinational expansion is given a more systematic orientation. This will in turn enable the company to avoid costly mistakes in one part of the world and take advantages of opportunity present in some other part of the world.

Secondly, the model emphasizes greater customer-oriented marketing planning. A number of benefits arise from this orientation. For example, product failure rate is considerably diminished, better marketing and merchandising effectiveness is

attained, and more stable pattern of continued success is derived. All of these benefits have been demonstrated in the domestic marketing.

Third, the model points out the need to go beyond aggregate secondary data. Often, irrevocable marketing decisions are based on either poor or irrelevant information with the consequence that marketing success is still more by accident than by design.

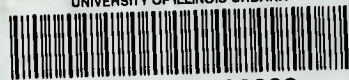
Finally, the model puts in proper perspective the role of marketing research in multinational business operations. It has been neglected so far and more than optimal reliance has been placed on the capability of R&D to provide insights on market desires.

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